



0000070919

BEFORE THE ARIZONA CORPORATION CO.

RECEIVED
AZ CORP COMMISSION

Arizona Corporation Commission

DOCKETED

JUN 26 4 43 PM '00

JUN 26 2000

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

DOCUMENT CONTROL

| | |
|-------------|-----|
| DOCKETED BY | VAC |
|-------------|-----|

IN THE MATTER OF THE APPLICATION OF
CITIZENS UTILITIES COMPANY FOR
APPROVAL OF ITS PLAN FOR STRANDED
COST RECOVERY.

DOCKET NO. E-01032C-98-0474

IN THE MATTER OF THE FILING BY
CITIZENS UTILITIES COMPANY OF
UNBUNDLED AND STANDARD OFFER
SERVICE TARIFFS PURSUANT TO A.A.C.
R14-2-1606.

DOCKET NO. E-01032C-97-0774

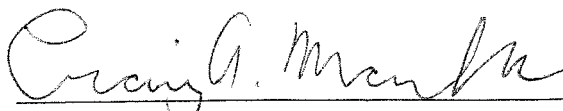
IN THE MATTER OF COMPETITION IN
THE PROVISIONS OF ELECTRIC
SERVICES THROUGHOUT THE STATE OF
ARIZONA.

DOCKET NO. RE-0000C-94-0165

**NOTICE OF FILING
SETTLEMENT AGREEMENT IN
LIEU OF REBUTTAL TESTIMONY**

Citizens Communications Company hereby provides Notice of Filing Settlement Agreement in Lieu of Rebuttal Testimony in the above-referenced docket. As discussed in the direct testimony of Lee Smith, on behalf of the Commission Staff, and the direct testimony of Marylee Diaz Cortez, on behalf of the Residential Utility Consumer Office, the parties have entered into a Settlement Agreement that resolves all issues in these dockets. Citizens submits the Settlement Agreement is reasonable, in the public interest, and should be approved by the Commission. Citizens has previously submitted the direct testimony of Sean Breen in this docket. Mr. Breen will also be available to answer any questions that the Hearing Officer may have concerning the Settlement Agreement.

1 RESPECTFULLY SUBMITTED on June 26, 2000.

2
3 

4 Craig A. Marks
5 Associate General Counsel
6 Citizens Communications Company
7 2901 N. Central Avenue, Suite 1660
8 Phoenix, Arizona 85012
9

10
11 Original and ten copies filed on
12 June 26, 2000, with:

13 Docket Control
14 Arizona Corporation Commission
15 1200 West Washington
16 Phoenix, Arizona 85007

17 Copies of the foregoing mailed/delivered
18 on June 26, 2000, to:

19 Jerry Rudibaugh
20 Chief Hearing Officer, Hearing Division
21 Arizona Corporation Commission
22 1200 West Washington
23 Phoenix, Arizona 85007

24 Jane Rodda
25 Hearing Officer, Hearing Division
26 Arizona Corporation Commission
27 400 West Congress Street
28 Tucson, Arizona 85701

29 Lyn Farmer
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

1 Deborah R. Scott
2 Director, Utilities Division
3 Arizona Corporation Commission
4 1200 West Washington
5 Phoenix, Arizona 85007

6
7
8 Service List for RE-00000C-94-0165

9 By: 
10 Joann Zychlewicz

11 G:\Craig~docs\Electric Restructuring Matters\Notice of Filing Letter in Lieu of Testimony 6-26-00.doc
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

**SETTLEMENT AGREEMENT
BETWEEN
COMMISSION STAFF,
RESIDENTIAL UTILITY CONSUMER OFFICE,
AND
CITIZENS COMMUNICATIONS COMPANY**

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 CARL J. KUNASEK
CHAIRMAN

3 JIM IRVIN
4 COMMISSIONER
5 WILLIAM A. MUNDELL
COMMISSIONER

6
7 IN THE MATTER OF THE APPLICATION OF
8 CITIZENS UTILITIES COMPANY FOR
9 APPROVAL OF ITS PLAN FOR STRANDED
COST RECOVERY.

DOCKET NO. E-01032C-98-0474

10 IN THE MATTER OF THE FILING BY
11 CITIZENS UTILITIES COMPANY OF
12 UNBUNDLED AND STANDARD OFFER
SERVICE TARIFFS PURSUANT TO A.A.C.
R14-2-1606.

DOCKET NO. E-01032C-97-0774

13 IN THE MATTER OF COMPETITION IN
14 THE PROVISIONS OF ELECTRIC
15 SERVICES THROUGHOUT THE STATE OF
16 ARIZONA.

DOCKET NO. RE-0000C-94-0165
**SETTLEMENT AGREEMENT
BETWEEN COMMISSION STAFF,
RESIDENTIAL UTILITY
CONSUMER OFFICE, AND
CITIZENS COMMUNICATIONS
COMPANY**

17
18
19
20 The Arizona Corporation Commission Staff ("Staff"), the Residential Utility
21 Consumer Office, ("RUCO") and the Arizona Electric Division (AED) of Citizens
22 Communications Company¹ ("Citizens") have engaged in settlement discussions
23 concerning the above-referenced dockets. These discussions have led to the
24 following points of agreement that are intended to resolve all issues between
25 Staff, RUCO and Citizens in these dockets:

- 26 1. Except as specifically stated otherwise in the following paragraphs,
27

28 ¹ Citizens Utilities Company changed its name to Citizens Communications Company, effective
29 May 18, 2000.

1 Citizens' proposed unbundled and standard offer service tariffs, and plan for
2 stranded cost recovery, as discussed in the prefiled testimony of Sean R. Breen in
3 Docket No. E-01032C-98-0474, are acceptable.

4 **RETAIL ACCESS IMPLEMENTATION**

5 2. If a final Commission order in this matter is issued on or before
6 August 1, 2000, Citizens' AED distribution system will open for retail direct access
7 on December 1, 2000, in general accordance with the current form of Electric
8 Competition Rules (with exceptions as specified below). Should Commission
9 approval occur after August 1, 2000, Citizens will endeavor to implement retail
10 access within four calendar months of the final order. Citizens may withdraw from
11 this agreement if the Commission does not issue a final order by September 30,
12 2000.

13 3. Citizens will make retail access immediately available to all customers
14 without phase-in limitations on the date it opens its service area to competition.
15 Citizens' Residential Phase-In Program ("RPIP") filed with the Commission (and
16 amended) in 1998, is no longer applicable; however, Citizens will report on the
17 relevant data required under R14-2-1604.B.5.

18 4. Citizens' will take all reasonable measures to finalize satisfactory
19 changes to Citizens' existing Power Service Agreement with Arizona Public
20 Service Company ("APS") to allow for scheduling of competitive loads into
21 Citizens' service areas.

22 5. Citizens has no current plans for establishing a competitive electric
23 affiliate for providing Competitive Services. Until or unless Citizens does seek to
24 offer Competitive Services, Citizens is not required to structurally or functionally
25 separate any of the present functions of its electric operations or to propose or
26 adopt a Code of Conduct under R14-2-1616. Nothing in this provision prevents
27 any successor organization to Citizens from engaging in competitive electric
28 activities under the Commission Rules applicable at the time.

RATE MATTERS

6. The Parties acknowledge that Citizens has recently received approval to implement a bill-credit adjustment factor under its Purchased Power and Fuel Adjustment Clause (PPFAC) to pass onto customers substantial reductions in power costs recently negotiated by Citizens. Further, Citizens is currently completing negotiations with APS that will provide further customer benefits and significantly reduce Citizens' stranded cost liabilities. These reductions satisfy the requirements of R14-2-1604.C. for "possible mechanisms" for rate reductions for Standard Offer customers.

7. No later than 30 days after an order is issued approving this Settlement Agreement, Citizens will file a new set of Standard Offer and Unbundled Tariffs that include (in part) the following features:

- a) an annually updated Competitive Transition Charge (CTC) for each rate tariff established, on a prospective basis, for recovery of annual Generation Transition Costs (GTC). GTCs are defined as the positive difference between generation rate revenues that would have been paid during the next year by customers expected to depart and the costs that will be avoided as a result of this load loss. The CTCs for each customer class will be calculated as follows:

$$\frac{[(\text{current generation rates for that class}) * (\text{projected lost sales for the class}) - (\text{an estimate of generation costs that will be avoided in the upcoming year for that class attributed to the projected class electric sales to be supplied by competitive generation providers})]}{(\text{the projected amount of lost sales for the class})}$$

With the CTC established in this manner, the migration of customers to competitive providers will not cause an increase in Standard Offer generation rates, because the class-specific CTC will be recovered from

1 all customers in that class whether on Standard Offer rates, or not. The
2 initial CTCs will be based on an estimated 10% sales migration for all
3 rate classes;

4 b) an annual procedure that includes a reconciliation of CTC revenues with
5 the GTC for the current year, and adjusts the CTC as computed in a)
6 above for any over/under recovery of GTC in the current year, subject
7 to a 2 mill/kWh per year limit on any CTC rate increase.

8 c) an allowance for carrying charges to be accrued on the balance of the
9 CTC reconciliation account computed using a rate indicative of the
10 Company's incremental borrowing cost;

11 d) a generation shopping credit for each rate class, that equals the
12 difference between the class generation rate and the respective class
13 CTC, and which shall be adjusted once per year on the anniversary of
14 the start of retail competition;

15 e) shopping credits for metering, meter reading, and billing based on the
16 full unbundled charge within each tariff;

17 f) included in the System Benefits charge for each rate class (in addition
18 to costs previously reflected in Citizens' July 1, 1999 Unbundled Rates
19 filing) will be the applicable portion of previously-deferred, Commission-
20 approved DSM expenditures, less the \$1.5 million refund from APS
21 resulting from the new contract renegotiation (including allowed accrued
22 carrying charges) over the transition period, recognizing the amounts
23 currently allowed in rates for this purpose;

24 g) a provision that, should any under-recovered balance in the CTC
25 reconciliation account exceed \$3,000,000 and be expected to continue
26 growing at a significant rate, the parties are in agreement that it is
27 appropriate for Citizens to seek accelerated recovery of the CTC
28 balance;.

- h) a provision that, if the CTC reconciliation account reflects an over- or under-recovered balance at the end of the competitive transition period, Citizens' CTC surcharge or surcredit, as appropriate, will continue until any balance is fully recovered or refunded;
- i) a per-kWh and/or per-kW (as relevant) generation CTC levied on actual customer usage/demand for the billing period;
- j) a new section of Citizens' Rules and Regulations ("Terms and Conditions for Direct Access") that sets forth the rules and regulations for implementation of direct access in Citizens' service area, including direct access service fees.
- k) an unbundled transmission charge that includes the costs of transmission services provided by the Western Area Power Administration (WAPA) after that charge has been removed from generation rates, and is subject to adjustment to reflect any increase or decrease in the cost of WAPA transmission services; and
- l) a modified Purchased Power and Fuel Adjustment Clause (PPFAC) mechanism applicable to Standard Offer generation, which will function in the same manner as the current mechanism, except for: 1) the appropriate allocation of CTC revenues and GTC to the CTC account so that Standard Offer generation rates will not be increased as a result of competitive sales migration; and 2) the use of a separate adjustment calculation and account for WAPA transmission costs. In addition, the existing \$2.6 million threshold initiating changes to the PPFAC rate adjustment factor will be eliminated, and the PPFAC adjustment to rates will occur simultaneously and consistently with the annual adjustment to the CTC. This provision shall not prevent Citizens from filing for an adjustment to the PPFAC at some other time, in the event of i) conditions or circumstances that constitute an emergency, or ii)

1 material changes in the cost of purchased power or fuel as a result of
2 federal, tribal, state or local laws; regulatory requirements; or judicial
3 decisions, actions or orders.;

4 m) a competitive transition period consistent with the duration of Schedule
5 A of the APS Power Service Agreement (currently 2011), if the current
6 APS contract is kept. If the current APS contract is divested, then the
7 transition period ends as of the date of divestiture.

8 8. Revenue requirements applicable to Citizens' Valencia generation
9 facilities will be recovered in rates for distribution service. If the Valencia
10 facilities are no longer needed to support local transmission reliability, or other
11 significant operating changes occur, Citizens will make a filing with the
12 Commission to determine if and how rates should be revised to account for the
13 changes that have occurred.

14 **REGULATORY ASSETS AND TRANSITION COSTS**

15 9. Citizens shall utilize the projected refund from APS to reduce its
16 current balance of previously-deferred DSM expenditures of approximately \$2.5
17 million. The balance, including carrying charges computed at Citizens' approved
18 AFUDC rate, may be recovered through the System Benefits Charge for each rate
19 class using the allocation method for these costs now reflected in Citizens' rates,
20 at the amortization rate allowed for deferred DSM recovery in Citizens' last rate
21 case. Citizens will file with the Commission for a change in its Systems Benefit
22 Charge when the deferred DSM balance is fully amortized, which should occur in
23 less than seven years.

24 10. Citizens will continue to defer DSM lost net revenues as provided for
25 in Decision No. 59951. Citizens may seek recovery for this item in a future rate
26 case, but Staff takes no position at this time on whether recovery should be
27 allowed.

28 11. A Competitive Transition Deferral Account ("CTDA") will be set up for
29

1 deferral of prudently-incurred, incremental transition costs directly related to and
2 resulting from the implementation of electric competition. The parties to this
3 agreement will support Citizens' recovery of legitimate, prudently-incurred
4 transition costs. This settlement agreement is intended to provide Citizens
5 reasonable assurance that these transition costs will be recovered in future rates.
6 Amounts to be deferred will be calculated in accordance with the procedure set
7 forth in Appendix A. Incremental transition costs may include, but are not limited
8 to, costs for:

- 9 • the systems and processes for enabling retail access transactions,
10 including costs associated with establishing scheduling coordinator
11 services, accounting systems(s) to separate competitive service
12 customer's load from Standard offer customer load, and the costs to
13 implement Electronic Data Interchange systems and protocols;
- 14 • stranded costs associated with competitive provision of metering and
15 billing services;
- 16 • consumer education;
- 17 • divestiture of the APS Power Service Agreement if deemed
18 appropriate based on further discussion with the parties to this
19 agreement;
- 20 • participation in the establishment and operation of the Arizona
21 Independent System Administrator (and any successor entity);
- 22 • regulatory matters directly associated with electric competition; and
- 23 • carrying charges accrued at Citizens' AFUDC rate computed on the
24 rate-of-return tested balance in the CTDA.

25 12. The Parties understand that, due to certain provisions under Schedule
26 A of the APS contract, competitive sales loss may have the effect of increasing
27 the Competitive Transition Charge. It is further understood that proceeding with
28 divestiture of the APS agreement to value stranded costs involves additional
29

costs, which should only be incurred if the level of actual competitive sales loss creates undue impact on the CTC. Consequently, Citizens should only proceed with divestiture of the APS Power Service Agreement if actual competitive sales loss has a significant impact on the CTC. If this occurs, Citizens will apply to the Commission for authority to proceed with divestiture of the APS contract through an open bid process with the goal of transferring the rights and obligations under the contract to a third party within approximately six months of the time from when the decision to divest was made.

13. The Commission should waive R14-2-1606.B, requiring competitive market purchase of Standard Offer generation, during the period Citizens retains the APS contract. Should Citizens proceed with divestiture of its power supply contract, stranded generation costs will be determined by the difference between the proceeds from the sale and the future obligations under the contract. In either case, Citizens may recover 100% of these stranded costs over the transition period. If Citizens does divest the APS contract and incurs unrecovered stranded costs, then Citizens may recover carrying charges on the unrecovered balance calculated at Citizens' approved AFUDC rate.

14. If large customers choose competitive suppliers and then desire to return to Citizens' service, the cost to supply returning customers may be higher than for other Standard Offer customers. Citizens shall have the right to file a Default Service rate for returning large customers that reflects the incremental cost of providing such service. For these purposes, a large customer shall be defined as any customer with a total load of 1 megawatt or greater.

SUPPORT OF SETTLEMENT AGREEMENT

15. The parties will support this Agreement in these dockets through testimony and other appropriate means, as necessary.

16. This Agreement represents a compromise and settlement of disputed issues and resolves all outstanding issues in these proceedings. If this Agreement is not

1 accepted by the Commission, none of the Parties compromises or otherwise
2 waives any position it has taken or may take on these issues.

3 17. The provisions of this Agreement are not severable and are effective only
4 after the Commission enters an order approving this Agreement without
5 modification. If this Agreement is not approved by the Commission in the form
6 submitted, it is deemed withdrawn, and its stipulations are void.

7 18. The Parties urge the Commission to approve this Agreement.

8
9 DATED June __, 2000

10
11 Staff of the Arizona Corporation Commission

12 By: Barbara Wytaskie
13 Title: Assistant Director
14

15 Residential Utility Consumer Office

16
17 By: Brian Townsend
18 Title: Deputy Director
19

20 Citizens Utilities Company

21 By: Charles W. Dill
22 Title: Vice President
23
24
25
26
27
28
29

Appendix A

Formula for Computing the Allowed Deferral of Incremental Transition Costs

Purpose

The purpose of this calculation is to make periodic determination of the amount of prudently-incurred, incremental transition costs that Citizens may defer in its Competitive Transition Deferral Account.

Frequency of Calculation

This calculation will be done annually based on the calendar-year financial performance of Citizens. Citizens will endeavor to submit the results of this calculation to Staff on or before March 31 of the following year or as soon as actual financial results are available.

Base Year

The results of the calculation will be compared to the reported financial results of a base year of the twelve-month period ending March 31, 1995, adjusted for the granted increases in Citizens' last rate case. Should the Commission determine that either a rate increase or decrease is justified, the base year for comparison will become the reported financial results for the new test-year underlying such rate adjustment.

Method

The extent of allowed deferral of transitions costs will depend on the relationship between the Per Books Rate-of-Return (PBROR) for the period compared to the PBROR for the base year, as follows:

- If the PBROR for the period, without inclusion of the transition costs, is lower than the base-year PBROR, then Citizens may defer 100% of the transition costs;
- If the PBROR for the period, after inclusion of the transition costs, is higher than the base-year PBROR, then none of the transition costs

incurred in the period may be deferred.

- If inclusion of transition costs causes the PBROR for the period to decrease from a level higher to a level lower than the base-year PBROR, then Citizens may defer only the portion of transition costs that causes the PBROR to fall below the base-year level.

PBROR = Net Operating Income/Net Rate Base, where:

Net Operation Income = Operating Revenue – Operations & Maintenance Expense – Depreciation – Interest on Customer Deposits – Taxes; and

Net Rate Base = Plant in Service – Accumulated Depreciation + Materials and Supplies – Contributions in Aid of Construction – + Accumulated Amortization of CIAC – Advances for Construction – Customer Deposits – Accumulated Deferred Taxes.

The PBROR for the base year is as follows:

| | <u>T.Y. Ending 3/31/95</u> | <u>Granted Adjustments</u> | <u>Adj. Per Books Test-Year</u> |
|---------------------------------|--------------------------------|--------------------------------|-------------------------------------|
| Operating Revenue | \$84,297,834 | \$ 474,428 | \$84,772,262 |
| Operating Expenses: | | | |
| Operation & Main. | \$59,487,665 | | |
| Depreciation | \$ 6,637,086 | | |
| Int.-Cust. Dep[a] | \$ 126,520 | | |
| Other Taxes | \$ 9,109,784 | | |
| Income Taxes[b] | \$ 2,369,609 | \$ 186,355 | \$ 2,555,964 |
| Total | \$77,730,664 | \$ 186,355 | \$77,917,019 |
| Net Operating Income | \$6,567,170 | \$ 288,073 | \$ 6,855,243 |

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28
- 29

| | |
|----------------------|---------------------|
| Net Rate Base | \$93,381,667 |
|----------------------|---------------------|

Base Year PBROR=Net Operating Income/Net Rate
Base=\$6,855,243/\$93,381,667=7.34%